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Examiners' Report/ Principal Examiner Feedback

June 2011

International GCSE
Economics (4EC0) Paper 01

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A new examination presents challenges for all involved: candidates, teachers and even examiners. Like the previous International GCSE, the paper is divided into four sections (questions 1-4) and these correspond to the four main sections of the specification. There may be some overlap as it is difficult to keep to rigid divisions in Economics. If the teaching of the specification omits any section or part of a section, candidates will be disadvantaged. In this examination it appeared that some centres may have omitted or spent insufficient time on the topic of population.

This report, the first relating to the new specification, should be valuable to centres. Below are some general suggestions to help candidates improve their performance:

- Every question should be attempted.
- Candidates should learn succinct and accurate definitions.
- Questions should be read carefully and instructions (e.g. 'using the data') followed.
- In questions which require evaluation, candidates should learn to
    - (i) identify and explain points which relate to both sides of the argument/discussion referred to in the question,
    - (ii) build to a reasoned/justified conclusion.

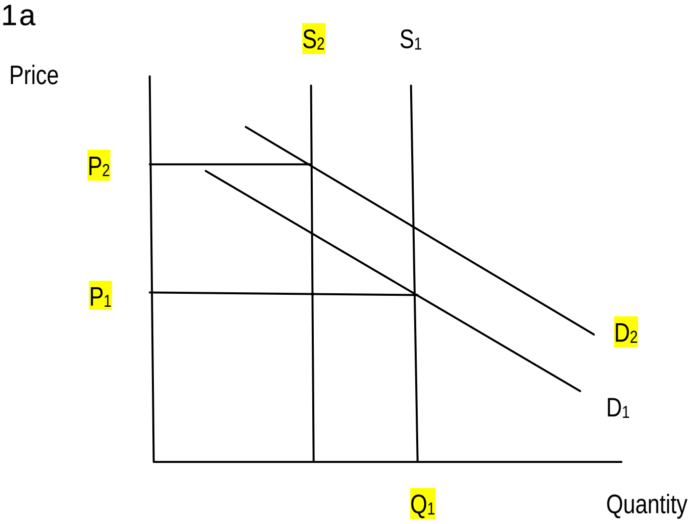
Examiners noted that many candidates felt constrained by the number of lines allocated to some questions. Extra sheets of paper can be used. Candidates should indicate on the question paper that they have continued their answers elsewhere, so as to avoid confusion in the marking process. The best answers are often succinct and require less space than is given.

Teachers now have access to the first examination paper, its mark scheme and this report to guide them in preparing their future candidates. They can be confident that papers will follow this format for the foreseeable future.

Question 1

(a)(i)(ii)(iv)(v) This question gave candidates the opportunity to show their understanding of the price mechanism through the use of a demand and supply diagram. The majority of candidates were able to show the equilibrium price, P_1, and quantity, Q_1, and shift the demand curve to the right D_1 (an increase in demand). The last two parts of this question were more testing, many candidates have problems shifting the supply curve in the correct direction and quite a few failed to find the correct intersection of demand and supply.

The final diagram should have looked like Figure 1a below.
Figure 1a



(a)(iii) This required candidates to identify two factors which may have led to an increase in the demand for tea. There are still some candidates who confuse factors that affect demand, i.e. cause the demand curve to shift (D_1 to D_2), and the effect that price has on demand, i.e. a movement along the curve. The most popular responses to the question included a rise in the price of substitutes like coffee and an advertising campaign promoting tea.

(a)(vi) The majority of students were happy with supply inelasticity in agriculture and many saw the need for a contrast with manufactured goods. Rather than emphasise the difference in the time required for supplying agricultural and manufactured goods, many candidates referred to the weather and ignored both the time element and the ability of manufacturers to keep stocks of their goods. The better candidates were able to qualify the contrast by seeing that the supply of manufactured goods can be inelastic in some circumstances.
"Yes, agricultural goods take a very long time to grow therefore supply can only be increased once the crop has been harvested and the next crop is planted. Agricultural goods cannot be stored for a long time because they are perishable e.g. tomatoes. Manufactured goods can be stored so their supply can be increased almost instantly. So in the short run agricultural goods are more inelastic in supply than manufactured goods. If demand for manufactured goods rises, more spare capacity can be utilized provided it is available e.g. labour and machinery. However, if a firm is already running at full capacity then supply cannot be increased in the short term, in the long term however it is possible to find and use more factors of production and invest in new capital."

(b)(i) A straightforward definition question to which the majority of candidates responded with sensible answers. Unfortunately some candidates were unable to write about elasticity without using the word 'price' and went on to produce incorrect or confused definitions.

(b)(ii) The first multiple choice question caused few problems for those candidates who understand the difference between normal and inferior goods.

(b)(iii) There were many good explanations of the contrast between normal and inferior goods, often with useful examples. Only stronger candidates emphasised the difference by mentioning positive and negative income elasticity's. Some weak candidates confused income elasticity with price elasticity and wrote of normal goods as luxuries with an elasticity greater than one and inferior goods as necessities with an elasticity of less than one.
"The demand for normal goods increases as incomes increase whereas the demand for inferior goods will fall as income increases. Normal goods have a positive income elasticity of demand whereas inferior goods have a negative income elasticity of demand."

(c)(i) There were surprisingly few sound definitions of ageing population, *"average age of the population rising"*. The most common incorrect definitions described age distribution or the dependency ratio.
When questions stipulate "Using the data" the best approach, in this case, was to refer to the relevant percentages i.e. *"65+ increasing from 12% to 19% while 15-64 age group saw a fall from 71% to 66% and the 0-14 group saw a rise of only 1% which is smaller than that of the 65+ group."*

(c)(ii) Few problems with this multiple choice question.

(c)(iii) There were many ways to go wrong on this question. Those who had not understood ageing population had little chance of scoring many marks. Some candidates, who did not notice that the question specified 'firms', wasted time by writing about effects on the government. Even those who made relevant points about both the labour force and product markets tended to miss the 'assess' command in the question.
"An ageing population means there are less people who are able to work, which would decrease the supply of labour. This may lead to firms having a shortage of workers and perhaps spare capacity. Wages will also rise increasing the firms' costs which would increase the price of the goods. However some firms may substitute labour for capital and buy machines to deal with the shortage of labour which could increase efficiency. Firms will have to adapt to the change in the pattern of demand. As there are fewer young people demand for some goods will go down e.g. i-pods and these firms will face problems. On the other hand firms which provide goods for old people, e.g. wheelchair firms, may be able to expand. One of disadvantages of an ageing population can be overcome if the supply of labour is increased by making the retirement age higher, although productivity will be decrease as they are older and generally slower."

Question 2

(a)(i)(ii)(iii) A straightforward set of questions.

(a)(iv) This question proved surprisingly challenging. Generalised assertions about economies of scale lacked substance. The common

assertion that the merged business would have too many workers needed some development to become an explanation. Few candidates referred to the merger leading to 'rationalisation'.
"Rationalisation takes place as e.g. two people who had both been employed by the two different companies may now be fighting for one job. While the number of people remains the same the number of work places decreases hence some people will not be needed and made redundant e.g. the firm may not need two accountants."

(a)(v)(vi) Another straightforward set of questions.

(a)(vii) Many candidates saw both potential for lower prices and better quality from the merged business and the risk that monopoly power could work against consumers. Unfortunately some wrote that benefits would exist but then neglected to give reasons for them. A small but noticeable minority incorrectly thought the merger increased competition.

A conclusion about the likelihood of gains or losses and the possibility of government intervention separated the best answers from the majority.

"A merger between firms producing similar goods will make a larger firm. This larger firm will be able to take advantages of economies of scale and thus average costs will decrease. This may result in lower prices for the consumer, which will benefit them. The two firms will now have shared resources which could mean an increase in the investment by the firm which could benefit the consumer due to better infrastructure, e.g. in this example more telephone masts erected. However, when the two companies merge there is going to be less competition and so this may mean a lower amount of choice than before the merger. As the firm is now much larger it could establish a monopoly which could lead to higher prices due to little competition and lower choice and quality. I think that as long as anti-competitive legislation is put in place, the merger will be beneficial to consumers as they will have all the benefits of a large firm without the negatives of a monopoly."

(b)(i)(ii) The most common correct answer to (i) was simply "pollution". Too many candidates listed more than one reason why governments try to reduce negative externalities rather than explain just one. A succinct and effective response was:

"Pollution can cause health problems which would lead to increased government expenditure on the health service."

(b)(iii) This produced mixed results. Some weaker candidates copied out the information in the paragraph rather than explaining how the policies could promote the production and sales of electric cars. Others gave completely unrelated responses e.g. monetary policy.

1. Canadian government's policy:

"A discount to buyers will reduce the price of electric cars so the demand and sales will increase."

2. South Korean government's policy

"A subsidy to develop high performance batteries may improve their efficiency and reduce their cost. Demand and production of electric cars will increase due to the improved quality of this component."

(b)(iv) Candidates must read questions carefully. This one clearly states 'Apart from the two policies mentioned in the paragraph above' yet this instruction was sometimes ignored and candidates simply repeated the same policies.

(b)(v) This called for a comparison of the two methods of reducing externalities that candidates had identified in (b)(iv), though occasionally candidates failed to obey this instruction and went back to write about the Canadian and South Korean approaches. Candidates who only wrote about one preferred method were not answering the question. A sound conclusion depended on having considered both alternatives.
"Imposing rules on the use of petrol/diesel fuelled cars or even banning the use of these cars would be better at reducing negative externalities because no one could then use them so the negative externalities would be wiped out. The reason banning isn't used is that diesel/petrol fuelled cars are more useful than electric cars at this time, so people would complain. Electric cars can't go as fast or as far as petrol/diesel cars.
Taxation is a good way of reducing negative externalities because if the tax was proportionate to the amount the consumer drives, the consumer would be influenced to drive less and save money. This is not always the case. Petrol/diesel is a necessity because people need to use their car which they consider the best mode of transport. Some people will be encouraged to use other modes of transport e.g. bicycle but others will just pay the tax. Overall it does result in a decrease in the negative externalities and from the tax government gains revenue.
Between these two policies, taxation is best because it is more reasonable to the consumer as it gives them a choice. It reduces the demand and it also provides revenue for the government which can be used to develop electric cars. The money could also be used in other ways to decrease negative externalities."

Question 3
(a)(i) Definitions need to be accurate e.g.
"A change (1 mark) *in gross domestic product* (1 mark) *over a period of time* (1 mark)*."*

(a)(ii) The combination of a sound definition of recession with reference to the 3% fall in GDP in Ireland in 2008 made this question very accessible, yet many candidates failed to deliver one or both of the desired components.
"The economy of Ireland could be described as being in recession as we can see economic growth is at 6% in 2007 and this becomes negative to -3% in 2008. Hence we can say it is in recession as the economy worsened by 9%."

(a)(iii) To *"improve the standard of living"* and to *"reduce unemployment"* were the most popular responses to this question.

(b)(i) The word 'deficit' always carries the incorrect assumption from a minority of candidates that it must relate to imports and exports. In this case 'budget deficit' referred to *"government expenditure greater than government revenue".*

(b)(ii) With only two years to choose from, it was unlikely but not impossible for candidates to score zero here.

(b)(iii) Whilst the majority of candidates correctly identified 'fiscal policy' it was not unusual for the other options to be chosen.

(b)(iv) The question clearly asked for '**one** reason why government revenue in Ireland fell'. However there were a variety of inappropriate responses which included explanations of a budget deficit or gave reasons for increased government expenditure. The two most common correct explanations referred to revenue from direct or indirect taxes.
Direct taxes:
"As the country was in recession business confidence decreased meaning firms would lay off workers as demand decreased. As a result, less people were in employment so less people could pay income tax to the government, meaning government revenue would decrease."
Indirect taxes:
"During the recession people earned less so spent less money on goods and services. The government collected less indirect taxes such as VAT, so tax revenue decreased."

(b)(v) Most candidates offered plausible ways in which increases to government spending could lead to growth. Many of the better answers identified *"expansionary fiscal policy"* and developed their points convincingly. The 'examine' command required more than just an explanation for full marks. The best candidates mentioned the risk of inflation or a growing national debt. Some of the very best answers used examples, such as the situation in Greece, to illustrate a potential danger.
"If a government increases its spending on certain areas in the economy it can increase economic growth. If it gives subsidies to firms they can become more competitive in the global economy and production can increase. More people will be employed and demand will increase. If the government spends its money on building motorways this can lead to improved infrastructure and more employment and a multiplier effect which

will increase demand and reduce unemployment further. However governments need to take care that the increased demand is matched by an in increase in supply to avoid inflation. Too much expenditure can lead to huge budget deficits. When this happens the measures taken to remedy the situation may reduce economic growth."

(c)(i) Straightforward does not always mean candidates choose the correct response!

(c)(ii) Candidates who repeated the question in their response did not score full marks. The answer *" income tax is a direct tax because it is taxed directly"* achieved only one mark, whereas *"income tax is a tax on income and wealth"* achieved two marks.

(c)(iii) This was one of the most disappointing evaluation questions, with many candidates relying on assertions rather than explanations. Some candidates tried in vain to give logical explanations of why indirect taxes are used to combat inflation and how they can reduce disposable income. One sided arguments were common with emphasis on the advantages of decreasing the demand for demerit goods whilst ignoring the disadvantages of penalising the poor.
***"**They can reduce the demand of demerit goods like alcohol and cigarettes whilst at the same time earn lots of revenue for the government due to these goods being inelastic in demand. The money raised from indirect taxes can be used to fund a deficit or be spent in order to increase economic growth in the country. The taxes are also discretionary; the consumers only pay the tax if they buy the products. However, there are many disadvantages of indirect taxes. Firstly, they can lead to cost push inflation as firms have to pay the taxes and they pass the tax on to the consumers. Indirect taxes are regressive, poorer people pay a higher proportion of their income in this tax than the rich. In conclusion the disadvantages easily outweigh the advantages as indirect taxes restrict growth as entrepreneurs are discouraged to set up firms as they might feel that indirect taxes will restrict demand for their goods. Furthermore the taxes can contribute to inflation and possibly unemployment and all they really do is provide some funds for the government which could be done using other methods."*

Question 4
(a)(i)(ii)(iiii)(iv)
The majority of candidates correctly used the exchange rate data to answer these straightforward questions.

(a)(v)(vi)(vii)
Candidates who could not differentiate between appreciation and depreciation of a currency were at a disadvantage when attempting to answer this set of questions.

(a)(viii) This proved challenging to the majority of candidates. Some were very confused and others with little real idea tried to be inventive. The straightforward point that higher interest rates would attract savers (not investment) from overseas to buy the currency in order to put it on deposit is all that was required.

(b)(i) The most common mistake was to include invisibles (services) in the definition.

(b)(ii) This question proved to be a very good discriminator. The very weakest candidates struggled with the direction of price changes for exports and imports due to depreciation. The majority successfully explained that sales of cheaper exports might grow whilst sales of dearer imports might fall. A pleasing number went on to explain that price elasticity's would determine the impact on the balance of trade.
"Yes I do agree with the statement. When the exchange rate of a currency depreciates, this means that the domestic currency can now buy less of a foreign currency. This means that imports will seem more expensive to consumers and exports will be cheaper to other countries. This will increase demand for exports and decrease the demand for imports. As the balance of trade is visible exports – visible imports, the balance of trade will improve. However, the strength of this depends on the price elasticity of demand for the imports and exported goods. If the good has an inelastic demand the demand will not be affected greatly when the exchange rate depreciates. This may be because the good is a necessity. Therefore for depreciation to be successful it is best if the demand for both imports and exports is elastic."

(b)(iii) Generally well done but some candidates gave responses which would reduce imports rather than increase exports.

(c)(i)(ii) Straightforward questions.

(c)(iii) A question which proved accessible as most candidates offered explanations of how borrowing could be linked to an increase in the standard of living. The discriminators here were the ability to see dangers (e.g. corruption, spiralling debt) and willingness to draw a balanced conclusion.
"International borrowing by a developing country can lead to an increase in the standard of living. The borrowed money can have an immediate effect if it is used to provide food and clean water to the poorest people in the country. It can also be used to develop the country and promote economic growth by improving infrastructure, subsidising firms and improving health and education in the country. All these measures can increase employment and raise the standard of living. However the country will need to repay the debt with interest. Some countries become reliant on foreign loans and the debt spirals out of control. Unless the country has used the money wisely to promote economic growth the country's standard of living will fall as it tries to pay back the debt."

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